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SUBJECT: TAIWAN AVIATION - DIRECT LINKS, HIGH-SPEED RAIL,
FUTURE OF UNCERTAINTY (PART 3 OF 3)

REF: A. 05 TAIPEI 3752

- [1](#)B. 05 TAIPEI 4161
- [1](#)C. TAIPEI 1152
- [1](#)D. TAIPEI 3210
- [1](#)E. TAIPEI 3414
- [1](#)F. TAIPEI 3446

Classified By: AIT Deputy Director Robert S. Wang, Reason 1.4 b/d

[1](#)1. (C) Summary: U.S. firms have different views on the potential impact of direct cross-Strait air links on their business. United hopes regular cross-Strait flights on other airlines will increase the attractiveness of its planned non-stop service to San Francisco. Northwest and FedEx believe direct links that exclude foreign carriers will only make their services less competitive. Boeing sees improved prospects for aircraft sales to Taiwan firms with direct links. (Comment: We should continue to encourage Taipei and Beijing to implement direct aviation links, but underscore that foreign carriers should also be allowed to operate cross-Strait flights at least starting with international passengers and cargo.) End summary.

[1](#)2. (U) This is the third of a three part report on the challenges facing Taiwan's aviation industry (with refs E and F). This part deals with the impact of current difficulties in Taiwan's air transport market on U.S. companies.

United, Northwest - Different Views on Cross-Strait Links

[1](#)3. (U) U.S. airlines have gradually decreased their presence in Taiwan over the past ten years. At one time, United, Northwest, Continental, Delta and American Airlines all flew to Taiwan. Today, only United and Northwest operate their own flights; the others serve Taiwan only through code shares with other airlines. Even the airlines that continue to fly to Taiwan have reduced their presence. United's service to Taiwan has gradually fallen from 10 daily flights to two. Northwest operates only one daily flight to Osaka. Foreign carriers in general have reduced service to Taipei, especially large international carriers. Instead, many

are increasingly focused on China and other more rapidly growing markets in the Asia-Pacific region. Only a few smaller regional or low-cost airlines, such as Bali Air and Jet Star, have expanded service to Taiwan in recent years. Nevertheless, United recently bucked the trend by announcing a daily Taipei-San Francisco non-stop flight starting in April 2007.

14. (C) Northwest and United have different views on the effects cross-Strait direct links will have on their business in Taiwan. Northwest Taiwan Station Operation Manager Nelson Wang told AIT/T cross-Strait direct flights would make Northwest less competitive in Taiwan. Foreign carriers would most likely not be able to operate direct flights, giving CAL and EVA an advantage in being able to offer direct service to both the United States and the Mainland.

15. (C) United Airlines Taiwan General Manager Andrea Wu, on the other hand, sees regular direct flights as a potential boon for United. Such flights would enhance United's position, once it begins direct service to San Francisco, as the only airline that offers non-stop service from the U.S. to both Taiwan and the PRC. Working with future Star Alliance partners Shanghai Airlines and Air China (now Star Alliance observers), United would be able to offer convenient service to customers traveling to all three destinations. However, she emphasized that cross-Strait charter flights would only be helpful as a stepping stone for regular flights because United would be unable to sell tickets on charter flights to its customers.

16. (C) United's Wu and Northwest's Wang both expressed

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interest in eventually being able to operate cross-Strait flights as well. Wu, however, pointed out that pressure from foreign carriers would only complicate cross-Strait charter flight discussions. Direct flights will only happen if sovereignty issues are removed from the discussion, she commented.

FedEx - Direct Links Will Be a Challenge

17. (C) FedEx Express has found it difficult to maintain growth in the current environment, according to Taiwan Managing Director Michael Chu. FedEx's Taiwan business has suffered as air cargo export volumes have stagnated. Chu told us exports used to account for 60 percent of FedEx's Taiwan business, compared to less than 55 percent currently. He said deliveries from Taiwan to the United States had shown declines recently, even as traffic from Taiwan to Europe and Asian destinations had continued modest growth.

18. (C) Chu believes that FedEx's situation in Taiwan will worsen once direct cargo charter flights are implemented. FedEx uses its own aircraft fleet for all deliveries. It will be unable to utilize cross-Strait charters limited to Taiwan and PRC airlines, giving its competitors (both Taiwan air carriers and freight forwarding agents who use them) an advantage. FedEx faces an additional challenge in Taiwan with the impending transfer of FedEx's Asian hub from Subic Bay, Philippines, to Guangzhou, China. Chu pointed out that FedEx's cross-Strait deliveries currently transit the Subic hub just like the rest of its international Asian deliveries. However, with the transfer of the hub to Guangzhou, there will be no direct connection from Taiwan to the company's hub.

19. (C) Chu indicated FedEx would very much like to operate cross-Strait cargo charters. He explained that FedEx would be willing to operate the flights under the same conditions as the Kaohsiung-Taipei leg that it

currently operates as part of an Anchorage-Kaohsiung-Taipei-Subic flight. Because FedEx has no cabotage rights in Taiwan, it does not carry deliveries that originate in Kaohsiung and terminate in Taipei on the flights. At the Taiwan stops, only export and import cargo is loaded or unloaded. FedEx operates a Beijing-Guangzhou route under similar conditions in China, according to Chu. If FedEx operated cross-Strait charters under similar conditions, they might not raise the usual objections from the PRC that cross-Strait flights cannot be designated as international routes.

¶10. (C) (Note: UPS also has extensive operations in Taiwan, but refused to discuss the island's business environment with econoff because of the sensitivity of cross-Strait issues. A UPS representative said UPS would contact officials in Washington if it needed support on issues related to Taiwan. End note.)

Boeing - Direct Links Will Boost Sales Prospects

¶11. (SBU) Boeing and Airbus have competed intently for aircraft sales to Taiwan's two large airlines, CAL and EVA. None of the four small airlines are financially strong enough to expand their fleets. Even replacing aging aircraft is a challenge for the small carriers under current conditions.

¶12. (U) Both CAL and EVA have fleets that consist mostly of Boeing aircraft. CAL currently flies 46 Boeing aircraft and 21 Airbus planes (including an A340-400 leased from Boeing). EVA's fleet includes 21 Boeing planes and 11 Airbus planes. It also flies 18 McDonnell-Douglas aircraft. CAL and EVA have relatively large 747 fleets with 34 and 18 747s, respectively.

¶13. (U) Their cargo capacity is particularly impressive. With 18 planes, CAL has the world's largest fleet of 747

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freighters. In addition, to three 747 freighters and nine 747 Combi's (with expanded cargo and reduced passenger capacity), EVA flies 14 MD-11 freighters. Air Cargo World ranked CAL the world's seventh largest cargo carrier in 2005 by cargo weight and distance flown. EVA was ranked tenth. If combined, the two airlines would rank second, only behind FedEx.

¶14. (C) AIT/T has worked closely with Boeing to support the sale of ten new 747-800 aircraft to CAL (ref C). However, CAL announced in June that it was suspending consideration of the purchase due to high fuel costs. Boeing continues discussions with CAL on the 747-800 sale. In addition, Boeing Commercial Airplane Chief Representative in Taiwan Paul Fang told AIT/T that Boeing hopes CAL might replace some of its A350 aircraft with 787s. Fang has also informed us that Boeing believes it may have an opportunity to sell 777 freighter, 787 and 737 Next Generation aircraft to EVA.

¶15. (C) In addition to fuel prices, Fang said the development of cross-Strait air links will also be an important factor in fleet planning decisions for CAL and EVA. Direct links could accelerate fleet expansion. In addition, the two airlines' respective joint ventures with Mainland cargo carriers could boost aircraft purchases if successful.

Comment - Direct Links Benefit U.S. Interests Overall

¶16. (C) Direct cross-Strait air links present a mix of challenges and opportunities for U.S. aviation industry firms in Taiwan. However, all U.S. firms operating in both Mainland China and Taiwan will receive some benefit

from the convenience of direct cross-Strait flights and the ability to more fully integrate Greater China operations. In addition, direct air links could move Taiwan and the PRC closer to resolution of the cross-Strait conflict through deeper economic integration and provide a more stable environment for business. The United States should continue to encourage both sides to reach an agreement as soon as possible on direct air links along with further liberalization of cross-Strait ties. We should also regularly remind Taipei and Beijing that international carriers should be permitted to operate cross-Strait flights perhaps starting with international passengers and export/import cargo to avoid cabotage issues.

YOUNG